

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 EURE-00 AID-05

CIAE-00 COME-00 EB-07 FRB-01 INR-07 NSAE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 PA-02 PRS-01 USIE-00 SSO-00

NSCE-00 INRE-00 ITC-01 /114 W
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O R 061757Z OCT 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 6317

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

UNCLAS SECTION 01 OF 03 LONDON 16005

DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD SEPT. 29-OCT.6

SUMMARY: AFTER A SUBSTANTIAL GAIN ON SEPTEMBER 29. STER-
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LING TRADED NERVOUSLY IN THE RANGE OF THE 1.66

THROUGHOUT THE WEEK, TO FALL SHARPLY ON OCTOBER 6. OFFICIAL RESERVES IMPROVED BY 129 MILLION IN SEPTEMBER AFTER BORROWINGS UNDER THE EXCHANGE COVER SCHEME AND A DRAWING ON THE \$5.3 BILLION STANDBY. STATISTICS ON THE ADVANCES OF THE CLEARING BANKS RAISED FURTHER DOUBT ON WHETHER THE GOVERNMENT'S MONEY SUPPLY TARGETS COULD BE MET. SURVEYS OF BUSINESS OPINION AND INVESTMENT INTENTIONS POINTED TO HIGHER CAPITAL SPENDING IN 1977 AND CONTINUED TO HERALD SOME IMPROVEMENT IN BRITAIN'S OVERALL ECONOMIC PERFORMANCE. REVISED RETAIL SALES FIGURES FOR AUGUST SHOWED CONSUMER SPENDING CONTINUING AT THE STRENGTHENED JULY PACE. END SUMMARY.

1. STERLING JUMPED NEARLY 3 CENTS TO \$1.6675 ON SEPTEMBER 29 ON THE NEWS OF THE U.K.'S APPROACH TO THE IMF FOR A STANDBY CREDIT OF UP TO \$3.9 BILLION. THIS GENERAL LEVEL WAS MAINTAINED THROUGHOUT THE WEEK. THE POUND, HOWEVER, FELL SUDDENLY IN NEW YORK ON OCTOBER 5 AFTER THE LONDON MARKET HAD CLOSED, AND TRADING DURING OCTOBER 6 SHOWED THE POUND DOWN SHARPLY IN LONDON, TRADING IN A RANGE IN THE \$1.64'S, CLOSING UP AT \$1.6550.

SEASONALLY ADJUSTED ADVANCES BY THE LONDON CLEARING BANKS INCREASED OVER THE FOUR WEEKS ENDED SEPTEMBER 15 BY 100 MILLION POUNDS. THIS CONTRIBUTES TO A SIX-MONTH INCREASE IN CLEARING BANK LOANS OF NEARLY 1 BILLION POUNDS. THE SEASONALLY UNADJUSTED LEVEL OF STERLING ADVANCES SHOWED A FALL OF 111 MILLION POUNDS.

THIS INCREASE IN BANK LENDING HAS CAUSED SOME CONCERN THAT THE MONEY STOCK FIGURES TO BE RELEASED LATER THIS MONTH WILL SHOW A GROWTH IN THE MONEY SUPPLY FOR THE THIRD QUARTER SUBSTANTIALLY IN EXCESS OF THE 12 PERCENT TARGET FOR THE CURRENT FINANCIAL YEAR.

3. THE SEPTEMBER LEVEL OF U.K. OFFICIAL RESERVES WAS PUBLISHED ON OCTOBER 10. SHOWING A GAIN OF \$129 MILLION TO \$5158 MILLION AFTER FOREIGN CURRENCY BORROWING UNDER THE EXCHANGE COVER SCHEME OF \$336 MILLION.

BANKING SOURCES HAD EXPECTED THE TREASURY TO ANNOUNCE THE LEVEL OF A SEPTEMBER DRAWING ON THE \$5.3 BILLION

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STANDBY CREDIT. THE TREASURY, HOWEVER, ACKNOWLEDGING THAT THERE HAD BEEN SUCH A DRAWING, DECLINED TO SPECIFY THE AMOUNT INVOLVED.

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STR-04 CEA-01 PA-02 PRS-01 USIE-00 SSO-00 NSCE-00

INRE-00 EURE-00 ITC-01 /114 W
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O R 061757Z OCT 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 6318

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

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4. RETAIL SALES. FINAL RETAIL SALES FIGURES FOR AUGUST HAVE BEEN REVISED UPWARD FROM INITIAL ESTIMATES. THE INDEX OF RETAIL SALES VOLUME (1971 EQUALS 100) STOOD AT 108.9, A RISE OF 0.9 PERCENTAGE POINTS FROM THE PROVISIONAL ESTIMATE AND AN INCREASE OF 0.6 PERCENT FROM THE JULY FIGURE OF 108.3. THE MONTHLY INDEX NOW STANDS 3.8 PERCENTAGE POINTS ABOVE ITS LEVEL OF A YEAR AGO. WHILE RETAIL
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SALES VOLUME OVER THE LAST 3 MONTHS HAS BEEN ABOUT 1.0 PERCENT ABOVE THE PREVIOUS THREE-MONTH PERIOD, THE AVERAGE VOLUME OF RETAIL SALES FOR THE FIRST 8 MONTHS OF 1976 WAS STILL 1.25 PERCENT BELOW THE COMPARABLE PERIOD IN 1975. VIRTUALLY, THE ENTIRE JULY AND AUGUST RISE WAS ACCOUNTED FOR BY CONSUMER DURABLES WITH SALES OF FOOD, CLOTHING, AND FOOTWEAR REMAINING RELATIVELY FLAT.

5. CONSUMER CREDIT. NEW CREDIT EXTENDED BY RETAILERS ROSE BY 19 MILLION BOUNDS IN AUGUST, THE LARGEST MONTHLY INCREASE SINCE JANUARY. WHEN COUPLED WITH A SIMILAR RISE IN CREDIT EXTENDED BY FINANCE HOUSES, A TOTAL OF 38 MILLION IN NEW CREDIT WAS EXTENDED IN AUGUST. THIS LATEST FIGURE BRINGS THE RISE IN CONSUMER DEBT SINCE JUNE TO 94 MILLION POUNDS COMPARED WITH 59 MILLION POUNDS FOR THE PREVIOUS THREE MONTHS. THE RISE IN RETAIL CREDIT IS ROUGHLY CONSISTENT WITH THE INCREASE IN DURABLE SALES VOLUME NOTED IN THE PARAGRAPH ON RETAIL SALES.

6. F.T. BUSINESS SURVEY. THE RESULTS OF THE SEPTEMBER FINANCIAL TIMES BUSINESS SURVEY SHOW LITTLE BASIC CHANGE FROM THE RESULTS OF RECENT MONTHS. THEY POINT TO THE EXPECTATION OF HIGHER CAPITAL SPENDING, IMPROVED EARNINGS ON CAPITAL, A RISING TREND IN NEW ORDERS, GOOD EXPORT PROSPECTS, WHILE A WIDENING BALANCE OF RESPONDENTS INTENDED TO INCREASE HIRING OVER THE NEXT YEAR. THE SURVEY WAS DONE BEFORE THE LATEST DECLINE IN STERLING WHICH MAY IN PART EXPLAIN WHY 61 PERCENT OF FIRMS IN THE SAMPLE EXPECT A 10-14 PERCENT RISE IN UNIT COSTS OVER THE NEXT YEAR COMPARED WITH 49 PERCENT A MONTH EARLIER. FULLY 64 PERCENT BELIEVE THAT WAGE COSTS INCREASES WILL BE HELD TO 0-9 PERCENT INDICATING CONSIDERABLE FAITH IN THE EFFECTIVENESS OF THE CURRENT INCOMES POLICY. THE WEAKNESS IN DOMESTIC DEMAND CONTINUES TO BE THE DOMINANT FACTOR (92 PERCENT) AFFECTING CURRENT OUTPUT BUT EXPORT ORDERS WERE CITED BY 50 PERCENT OF FIRMS COMPARED WITH 42 PERCENT IN JULY AND AUGUST. THE SURVEY INDICATES A SMALL SHIFT IN THE BALANCE OF FIRMS INTENDING TO RESTOCK BOTH RAW MATERIALS AND FINISHED GOODS OVER THE NEXT YEAR. MOREOVER, THE PERCENT OF FIRMS INTENDING TO INCREASE THE VOLUME OF CAPITAL SPENDING COMPARED WITH THOSE INTENDING TO REDUCE SUCH SPENDING UNCLASSIFIED

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IMPROVED FROM 43 TO 22 IN AUGUST TO 45 TO 18 IN SEPTEMBER.

7. DOI INVESTMENT INTENTIONS SURVEY. THE DEPARTMENT OF INDUSTRY (DOI) HAS PUBLISHED ITS THIRD AND LAST INVEST-

MENT INTENTIONS SURVEY FOR 1976. THE THREE SURVEYS ARE HELD DURING THE SUMMER OF THE PREVIOUS YEAR, AT THE END OF THE PREVIOUS YEAR AND DURING THE SUMMER OF THE YEAR IN QUESTION. THE INITIAL SURVEY FOR 1976 FORECAST A DECLINE IN MANUFACTURING INVESTMENT ON THE ORDER OF 5 PERCENT, THE SECOND SURVEY LOOKED FOR A DECLINE OF BETWEEN 5 AND 8 PERCENT WHILE THE FINAL SURVEY LOOKS FOR AN OUTCOME OF BETWEEN 4 AND 5 PERCENT BEFORE BELOW THAT OF 1975. THE DEPARTMENT OF INDUSTRY ALSO EXPECTS A DECLINE IN DISTRIBUTIVE AND SERVICE INDUSTRY INVESTMENT OF ABOUT 4 PERCENT IN 1976. TRANSLATING THESE FIGURES IN LEVELS OF INVESTMENT STATED IN 1970 PRICES, THE DEPARTMENT OF INDUSTRY EXPECTS MANUFACTURING INVESTMENT TO DECLINE TO 1.660 BILLION POUNDS IN 1976 FROM 1.737 IN 1975 AND INVESTMENT IN DISTRIBUTIVE AND SERVICE INDUSTRIES TO DROP TO 1.880 BILLION IN 1976 FROM 1.964 BILLION IN 1975.

THE INITIAL DOI SURVEY FOR 1977 PROJECTS AN INCREASE OF 14.5 TO 20.5 PERCENT IN MANUFACTURING INVESTMENT AND OF ABOUT 6.5 PERCENT IN INVESTMENT IN DISTRIBUTION AND SERVICES. IN 1970 PRICES, THE SURVEY PROJECTS MANUFACTURING INVESTMENT OF BETWEEN 1.9 AND 2.0 BILLION POUNDS AND OF 2.0 BILLION POUNDS IN DISTRIBUTIVE AND SERVICE INDUSTRIES. IF THIS FORECAST IS BORNE OUT, MANUFACTURING INVESTMENT WOULD STILL BE LESS THAN THE LEVEL ACHIEVED IN 1970 AND DISTRIBUTIVE AND SERVICE INVESTMENT WOULD BE OVER 350 MILLION POUNDS BELOW THE 1973 PEAK.

THE LAST SURVEY ALSO REVEALS THAT THE REAL RATE OF RETURN ON CAPITAL EMPLOYED AFTER ADJUSTMENT FOR INVENTORY APPRECIATION DROPPED TO 3.9 PERCENT IN 1975. THE RATE WAS ABOUT 11 PERCENT IN THE EARLY 1960'S WHILE PRETAX PROFITS HAVE IMPROVED SHARPLY DURING THE FIRST HALF OF 1976, WHEN ADJUSTED FOR INVENTORY, RISING VALUE OF CAPI-

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O R 061757Z OCT 76
FM AMEMBASSY LONDON
TO TREASURY DEPT WASHDC IMMEDIATE
SECSTATE WASHDC 6319
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
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TAL STOCK AND DEPRECIATION, THE REAL RATE OF RETURN MAY
NOT HAVE IMPROVED SIGNIFICANTLY IN 1976.

8- EXCHANGE RATE AND GOLD

EFFECTIVE

EXCHANGE DEPRECIATION GOLD

DATE	RATE (\$)	(PERCENT)	(\$)
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9/29	1.6675	44.5	116-1/4
9/30	1.6610	44.6	116-1/4
10/1	1.6690	44.7	116-1/8
10/4	1.6715	44.2	114-3/8
10/5	1.6645	44.7	114-5/8

CHANGE 9/28-10/5 UP 0.0267 NARROWED 0.8 DN 2-1/8

9. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/29	1.65	4.40	8.05
9/30	1.80	4.60	8.60
10/1	1.72	4.65	8.67
10/4	1.70	4.50	8.50
10/5	1.65	4.45	8.45

CHANGE 9/28-10/5 WID. 0.25 WID. 0.40 WID. 0.65
(ALL FIGURES IN CENTS)

10. EUDOROLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/29	5-3/8	5-3/4	6
9/30	5-1/2	5-3/4	6
10/1	5-3/4	5-3/4	6
10/4	5-1/2	5-5/8	6
10/5	5-3/8	5-3/4	6

CHANGE 9/28-10/15 DN 3/8 UNCHANGED DN 1/8

L1. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE	
9/29	6-15/16
9/30	7-13/32
10/1	8-3/16
10/4	7-5/16
10/5	7-1/16

12. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
9/29	12-11/16	12-25/32	12-3/4
9/30	12-27/32	12-15/16	13-1/16
10/1	12-11/16	12-7/8	13-3/32
10/4	12-17/32	12-13/16	12-15/16

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10/5	12-1/2	12-13/16	13
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CHANGE 9/28-10/5 DN 1/4 UP 1/16 UP 1/4

13. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 13
PERCENT AT THE OCTOBER 1 BILL AUCTION.

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